



WEEKLY REPORT

ARIZONA STATE RETIREMENT SYSTEM

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ASRS Board

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For the week ending Friday, February 28, 2003

Weekly Report is published by the Arizona State Retirement System (ASRS) and provides a summary of legislation that pertains to the ASRS, as well as up-to-date ASRS news. We hope you find it useful. Included is a Quick Reference summary. If there are issues you'd like addressed, please let us know.

***** Please distribute or make available this report to your employees. *****

Recent ASRS News:

> The ASRS Board has issued a letter to all members of the state Senate and House outlining its concerns over and opposition to legislation related to investments and terrorism. (See summary below. A copy of the Board letter is also posted on the ASRS website.)

> The next ASRS Board meeting is scheduled for March 21, 9:30 a.m., in the ASRS Tucson office, 7660 E. Broadway Blvd. The agenda includes public presentations on general matters of interest to all members. Meetings are always open to the public and your attendance is encouraged. Board meetings, agendas and minutes can be found on the ASRS website.

NEW ASRS Legislation

House Bill 2397, Senate Bill 1296 and House Concurrent Resolution 2029 each govern public monies and investment. Proposed legislation requires all asset managers investing state monies to scrutinize the companies in their portfolios and determine if those companies have "activities in terrorist-sponsoring nations." The ASRS Board stands firmly opposed to terrorism and any company or corporation that supports terrorist-sponsoring nations, but believes the proposed legislation does not adequately address the issue and would be difficult, if not impossible, to comply with.

The Board believes that if enacted in present form, the legislation would have a serious impact on the operations of the state pension trust fund, likely resulting in higher administrative costs, higher fees charged by money managers and diminished earnings, all leading to higher contribution rates.

A preliminary cost examination of the legislation reveals:

- 1) An expense of up to a half million dollars would be required to be paid to an outside vendor to perform the analysis.
- 2) An additional \$4 million in fees charged to the ASRS by money managers to "customize" portfolios could likely result.
- 3) Forgone income in excess of \$80 million could result from excluding targeted companies which may be on a "list."

While it is difficult to estimate the overall cost of the requirements of the legislation, its probable consequence could include:

- 1) Contribution rates would have to increase from 5.20% each for employers and employees to 5.84%. That increase is in addition to the 0.50% each for long-term disability coverage. (The current total contribution rate is 2.49%; the rate to take effect July 1, 2003, as approved by the Board, is 5.20%; the rate that may be needed as a result of the proposed legislation would be 5.84%.)
- 2) Earnings would be diminished and any permanent benefit increase (cost of living adjustment) to pensions would be negatively affected.

Additional concerns expressed by the Board include:

- The legislation does not provide a clear definition of what constitutes companies that have “ties to or activities in” nations on the designated federal list of terrorist-sponsoring countries. As presently written, it would be difficult if not impossible to compile the required reports.
- To date only one firm has been identified that alleges it can provide some but not all of the services needed to meet the requirements of the legislation. The bill does not require that firm to indemnify the various asset managers, the Retirement System, and the State of Arizona from the costs and damages of lawsuits that may result from reliance on its product
- Due to the burdens and uncertainties of the proposed legislation, as well as the legal liabilities, it is likely that large, national money managers would choose to not offer their services to the Retirement System and other state entities.
- The responsibility for authorizing, regulating and monitoring international trade rests with the federal government and Congress, which can provide a unified national policy and direction. Actions intended to limit investments in companies that have international activities in countries on the federal list should be uniformly applied to all states and investment institutions by an action of the federal government.

The ASRS Board and staff are continuing to discuss the issues with legislators.

Other legislation affecting the ASRS is listed in the attached Quick Reference.

Quick Reference
ASRS Related Retirement Legislation
(For the Period Ending Friday, February 28, 2003)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2023 – ASRS; unpaid contributions by Huppenthal As Passed the House: <ul style="list-style-type: none"> Provides a member with 90 days to make payments after being notified that the employer has paid all amounts past due. If the member does not pay within 90 days, the member is responsible for accrued interest from that point on. Provides an employer with 90 days to make payments after being notified of the amount due. If the employer does not pay within 90 days, the employer is responsible for any accrued interest until the amount is paid in full. Requires an employee to provide verification of past employment and qualification for participation in ASRS. States that, beginning June 30, 2004, the employer is only responsible for making payments for any unpaid contributions and interest for service which occurred within 15 years of the date of notification. Allows a member to purchase service that was worked prior to the 15-year limit as “other public service.” 	Passed House 56-0-2. Assigned: Sen. FIN. Status: Sen. First Read 02/05/03. <u>Scheduled Sen. FIN 03/03/03.</u>	As Passed the House: None Expected.	As Passed the House: Actuarial letter received stating no cost.
HB 2024 (see SB 1224) – ASRS; service purchase; calculation by Huppenthal As Passed the House: Contains an emergency clause. Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> The sum of the 12 months of compensation prior to the request. The sum of the 36 months of compensation prior to the request, divided by three. If the member has retired from an ASRS employer, the average monthly compensation used to calculate the member’s last pension, times 12. The annualized compensation of the full pay period prior to the request. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service. 	Passed House 57-0-1. Assigned: Sen. FIN. Status: Sen. First Read 02/04/03. Awaiting Sen. FIN.	As Passed the House: None Expected.	As Passed the House: Actuarial letter received stating no cost.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2067 – ASRS; technical correction by Huppenthal As Introduced: Makes a technical change to 38-742 “reinstatement.”	Assigned: Hse. RULES. Status: Awaiting Hse. RULES.	As Introduced: None Expected.	As Introduced: None.
HB 2349 (see SB 1036) – public retirees; rural areas; insurance by Konopnicki, Flake, Wagner, Arzberger, and Brown As Amended in Hse. GR: Extends the rural health insurance subsidy until 2005. Reduces the amount of the subsidy by 10% in FY04 and an additional 15% in FY05. Includes counties with a population less than 200,000 in the definition of “nonservice area.”	Assigned: Hse. HEALTH, Hse. GR, Hse. APPROP. Status: Passed Hse. HEALTH DP 12-0. Passed Hse. GR DPA 12-0. Awaiting Hse. APPROP.	As Introduced: None Expected.	As Amended: <u>Unfunded liability of \$31.1 million, an increase in the contribution rate for all employers and employees of 0.022% each, which is a combined cost of \$3.1 million more in contributions annually for 18 years (GF cost of \$352,927 per year).</u>
HB 2397 (see SB 1296) – public monies; investment protection by Yarbrough, Martin, Huppenthal, and 4 As Amended in Hse. WM (Strike Everything): <ul style="list-style-type: none"> Requires all asset managers that invest in equities on behalf of this state to submit an annual report to the entity on whose behalf they are investing. Requires affected state entities to provide an annual report to the governor, president of the senate, speaker of the house of representatives and the chairpersons of the house ways and means committee and the senate finance committee. Defines “federal designated terrorist sponsoring country or government” to mean those countries or governments that are designated as terrorist sponsoring by the U.S. Department of State, except Cuba. Only one company has been identified that could supply a portion of the required information to the asset managers for a fee. 	Assigned: Hse. WM. Status: <u>Passed Hse. WM DPA/SE 7-4-0-1. Awaiting Hse. RULES.</u>	As Introduced: Requested.	As Hs. Fin. Com. Amended: <u>A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.</u>
HB 2398 – ASRS; long-term disability increase by Carruthers, O’Halloran, Gullett As Introduced: Provides an increase to a member’s LTD benefit equal to a benefit increase provided to a retired member of ASRS.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR.	As Introduced: Not requested.	As Introduced: <u>Unfunded liability of \$56.0 million, an increase in the LTD contribution rate for all employers and employees of 0.09% each, which is a combined cost of \$7.4 million more in contributions annually (GF cost of \$1.8 million per year).</u>

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2401 – deferred retirement option plan by Wagner, Quelland, Gray, and 6 As Introduced: Provides a deferred retirement option plan option to members of the ASRS, PSPRS, and CORP.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR.	As Introduced: Not requested.	As Introduced: <u>Unfunded liability of \$634.8 million, an increase in the contribution rate for all employers and employees of 0.45% each, which is a combined cost of \$31.5 million more in contributions annually for 17 years (GF cost of \$7.5 million per year).</u>
HB 2455 – ASRS; termination option by Huppenthal As Amended in Hse. GR: Makes technical changes to the Modified DROP Program.	Assigned: Hse. GR, Hse. APPROP. Status: Passed Hse. GR DPA 10-0-0-2. <u>Passed Hse. APPROP DP 14-0-3. Awaiting Hse. RULES.</u>	As Introduced: None Expected.	As Introduced: None.
HCR 2002 – impeachment; public retirement systems; forfeiture by Huppenthal As Introduced: Constitutional amendment to allow the senate to require an impeached official to forfeit their public retirement benefits from the office for which they were impeached.	Assigned: Hse. GR, Hse. JUD. Status: Awaiting Hse. GR.	As Introduced: None Expected.	As Introduced: None.
HCR 2029 – public monies; investment protection by Nichols, Verschoor As Introduced: Urges all asset managers and financial firms that invest or manage monies on behalf of the state to submit semiannual reports concerning companies engaged in business practices within a country designated by the United States Department of State as one that supports terrorist activities.	Assigned: Hse. GR, Hse. APPROP. Status: Passed Hse. GR DP 10-0-0-2. Awaiting Hse. APPROP.	As Introduced: Requested.	As Introduced: Not Requested. (If implemented, cost may be the same as for SB 1296 and HB 2397.)
SB 1036 (see HB 2349) – public retiree health insurance subsidy by Arzberger and 23 As Introduced: Extends the rural health insurance subsidy until 2004. Includes counties with a population less than 200,000 in the definition of “nonservice area.”	Assigned: Sen. FIN. Status: <u>Passed Sen. FIN DPA 6-1-2. Awaiting Sen. RULES.</u>	As Introduced: None Expected.	As Introduced: Unfunded liability of \$18.8 million (one year extension), an increase in the contribution rate for all employers and employees of 0.014% each, which is a combined cost of \$1.9 million more in contributions annually for 18 years (GF cost of \$216,569 per year).

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1037 – ASRS; surviving spouses; health insurance by Arzberger and 17. As Amended in Sen. FIN: Provides a retiring member who selects a joint and survivor or period certain annuity the ability to select an optional health insurance subsidy that continues to the surviving spouse after the member's death.	Assigned: Sen. FIN. Status: Passed Sen. FIN DPA 5-3-1. Awaiting Sen. RULES.	As Amended: Requested.	As Amended: <u>Actuarial letter received stating this bill is cost neutral.</u>
SB 1160 – ASRS; veterans; service credits by Arzberger As Introduced: Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest. Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements. Appropriates \$50,000 to the ASRS for making the recalculations.	Assigned: Sen. FIN, Sen. APPROP. Status: Awaiting Sen. FIN.	As Introduced: Requested.	As Introduced: Unfunded liability of \$628,050, and increase in the contribution rate for all employers and employee of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change and therefore no cost.
SB 1221 – ASRS; study committee; health costs by Arzberger, Aguirre, Brotherton As Amended in Sen. FIN: Creates a study committee on managing retiree health-care costs.	Assigned: Sen. FIN. Status: Passed Sen. FIN DPA 6-0-3. Passed Sen. RULES PFC. Passed Sen. Caucus. Awaiting Sen. COW.	As Amended: None Expected.	As Amended: None.
SB 1224 (see HB 2024) – ASRS; service purchase; calculation by Martin, Reagan As Amended in Sen. FIN: Contains an emergency clause. Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> 1. The sum of the 12 months of compensation prior to the request. 2. The sum of the 36 months of compensation prior to the request, divided by three. 3. If the member has retired from the ASRS, the average monthly compensation used to calculate the member's last pension, times 12. 4. The annualized compensation of the full pay period prior to the request. 5. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service. 	<u>Passed Senate 29-0-1.</u> Assigned: <u>Hse. GR,</u> <u>Hse. APPROP.</u> Status: <u>Awaiting Hse. GR.</u>	As Amended: None Expected.	As Amended: None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1225 – ASRS; investment management; requirement by Martin As Introduced: Amends ARS 38-718 to correct for the change in name of the organization responsible for awarding the chartered financial analyst designation from “institute of chartered financial analysts” to the “Association for Investment Management and Research.”	<u>Passed Senate 30-0.</u> Assigned: <u>Hse. FII,</u> <u>Hse. GR.</u> Status: <u>Awaiting Hse. FII.</u>	As Introduced: None Expected.	As Introduced: None.
SB 1226 – ASRS; legal counsel by Martin As Introduced: Exempts the ASRS from obtaining legal counsel only from the Attorney General.	Assigned: Sen. JUD, Sen. FIN. Status: Passed Sen. FIN DP 8-0-1. FAILED Sen. JUD 3-4-2. <u>Scheduled, not heard Sen. JUD 02/26/03.</u>	As Introduced: None Expected.	As Introduced: None.
SB 1296 (see HB 2397) – public monies; investment protection by Martin, Stump, Yarbrough As Amended in Sen. FIN: Asset managers and financial firms that invest or manage monies on behalf of the state are required to submit semiannual reports including a list of companies that have ties to terrorist countries, steps taken by these companies to ensure that the revenues it generates are not used by any government for terrorist activities, and other anti-terrorist provisions. “Activities in” is not defined. Only one company has been identified that could supply a portion of the required information to the asset managers for a fee.	Assigned: Sen. FIN. Status: Passed Sen. FIN DPA 7-1-1. <u>Passed Sen. RULES PFCA.</u> <u>Passed Sen. Majority Caucus. Held in Sen. Minority Caucus 02/25/03.</u>	As Introduced: Requested.	As Introduced: : <u>A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.</u>

LEGEND

AMEND C&P	Constitutional and Proper as Amended by the House Rules Committee	HB	House Bill
APPROP	Appropriations Committee	HCR	House Concurrent Resolution
ASRS	Arizona State Retirement System	Hse.	House of Representatives
C&P	Constitutional and Proper	JUD	Judiciary Committee
CORP	Corrections Officer Retirement Plan	LTD	Long Term Disability
COW	Committee of the Whole	PFC	Proper for Consideration
DP	Do Pass	PFCA	Proper for Consideration as Amended by the Senate Rules Committee
DPA	Do Pass as Amended	PSPRS	Public Safety Personnel Retirement System
EORP	Elected Officials' Retirement Plan	SB	Senate Bill
FII	Financial Institutions and Insurance Committee	S/E	Strike Everything Amendment
FIN	Finance Committee	Sen.	Senate
GF	General Fund	WM	Ways and Means Committee
GR	Government and Retirement Committee		

**The weekly legislative report is available on-line at the ASRS Web site:
www.asrs.state.az.us**

The ASRS External Affairs Division and the Legislative Board Committee meet during the legislative session. The meetings take place in the 14th floor conference room of the ASRS office at 3300 N. Central Ave., Phoenix, and are open to the public. The purpose of these meetings is to review legislative activity on retirement bills from the previous week, and to review the scheduled bill activity in committees and on the floor for the upcoming week. Committee members ask technical and background questions, and review the latest information gathered from the Capitol and retirement groups from around the state. Meetings are teleconferenced to the ASRS Tucson office at 7660 E. Broadway Blvd., Tucson. Meeting agendas and minutes will be posted on the ASRS website. If you have questions relating to legislation, please contact Kelly Orrick at (602) 240-2027 or via email at KellyO@asrs.state.az.us.